BIRMINGHAM CITY University
Centre for Brexit Studies

MIDLANDS ECONOMIC FORUM

Regional Monitor November 2017

Latest Global Trends, Regional PMI, Output Data, Trade Conditions & Brexit Update

Days since Article 50 activation: 230 **Remaining Brexit Negotiating Days: 50 ?.**

- Output performance across Britain firmed at the start of the fourth quarter, although both still positive, growth accelerated at a slower pace in the EM and WM.

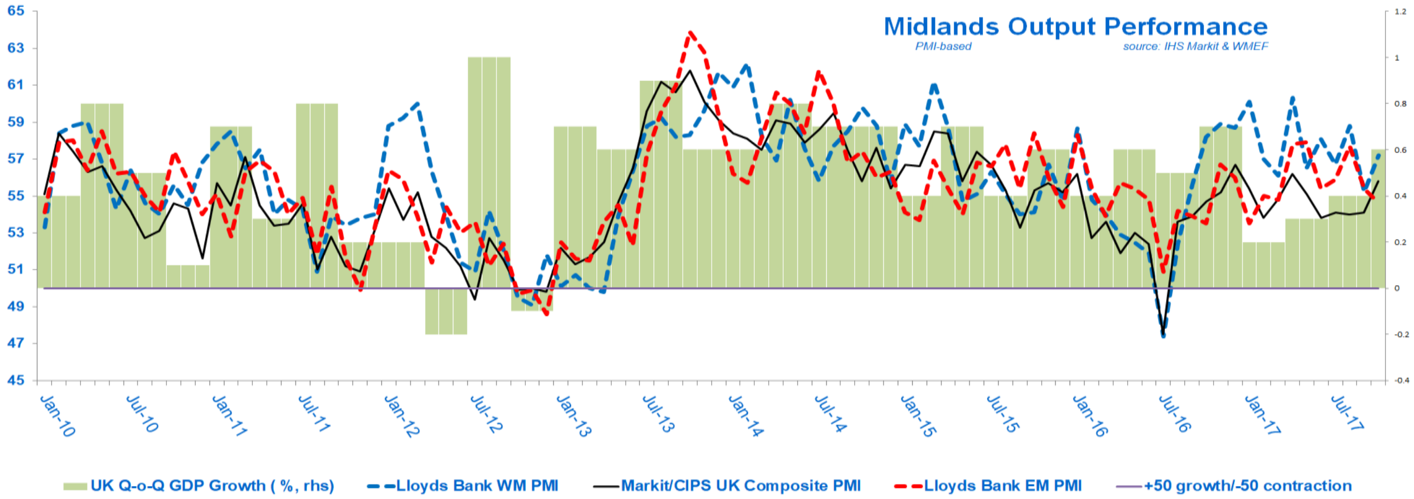
- Nationally, the overall PMI improved from 54.1 in September to 55.8 in October, whereas in the EM eased from 55.4 to 54.6 over the same period although growth in the WM was more vigorous improving from 55.2 in September to 57.2 in October.

- Nationally, Manufacturing and Services PMIs recorded firmer growth, up from 56 to 56.3 and 53.6 to 55.6 in September to October respectively, with the Construction PMI moving back in to positive territory from negative 48.1 previously to 50.8.

- EM output continues to be strong, although output prices recorded the greatest acceleration in half a year, and labour market conditions the weakest in over a year.

- WM business confidence hit its lowest level post the Brexit referendum, and although new employment opportunities slowed, overall output growth recovered strongly.

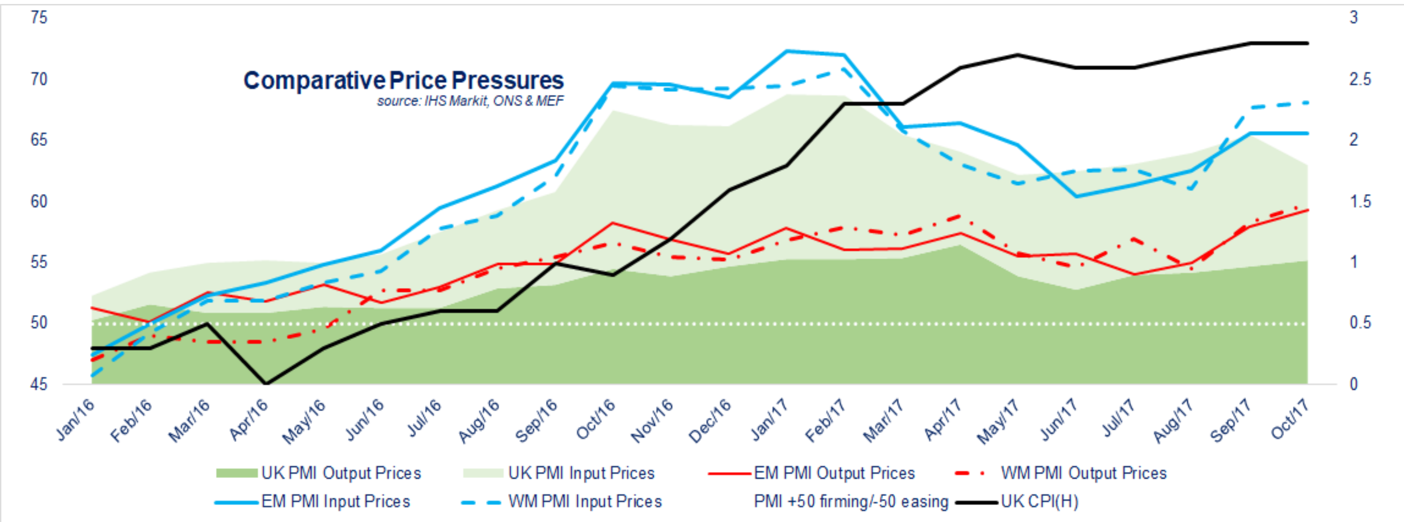
- With EU officials now apparently contemplating No Deal, despite previous false dawns, December's EU summit is likely to prove decisive if apparently floundering Brexit negotiations are to be revived and derive a mutually beneficial agreement.



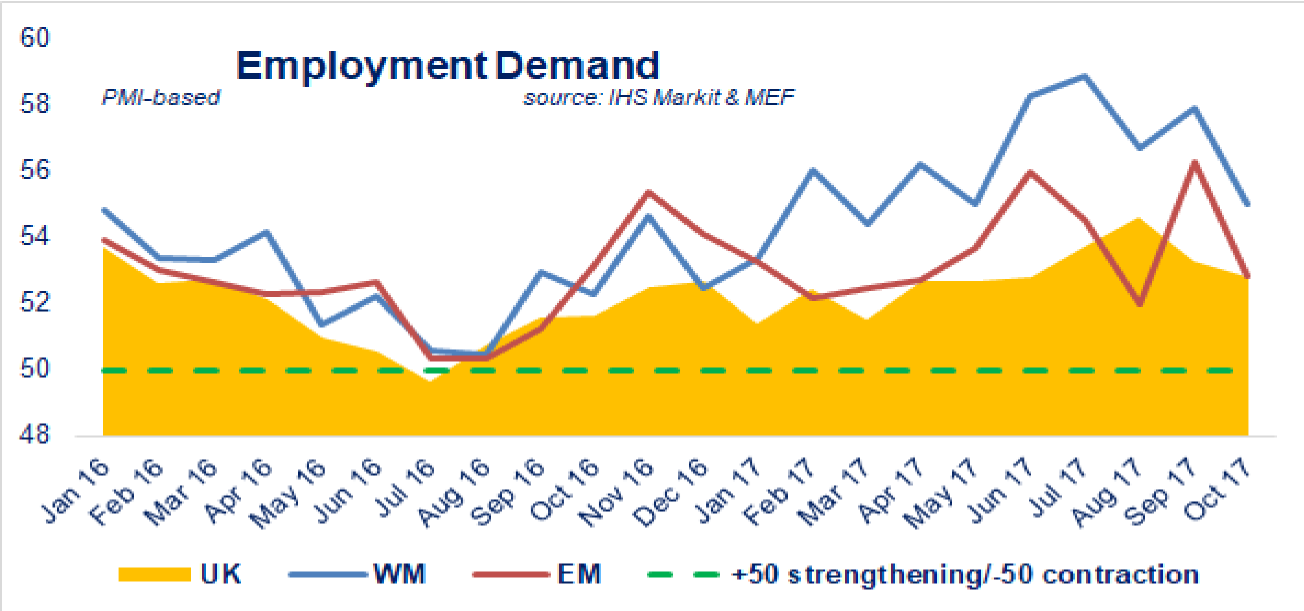
EM and WM performance showed differing pictures overall in October, with an acceleration of growth in the WM rising to 57.2 from 55.2 in September, whilst growth in the EM softened slightly to 54.6 in October from 55.4 previously, although the region maintained positive growth. The UK's performance also improved, recording 55.8 from 54.1 in September.

Julian Beer, Deputy Vice-Chancellor at Birmingham City University commented: "The Midlands continues to outperform the UK as a whole, with robust increases in output, new orders and employment, despite some softening from the previous month. Nevertheless, uncertainties surrounding Brexit remain – exacerbated somewhat by events in Europe and the USA - and businesses need clarity in order to continue to produce at globally competitive levels."

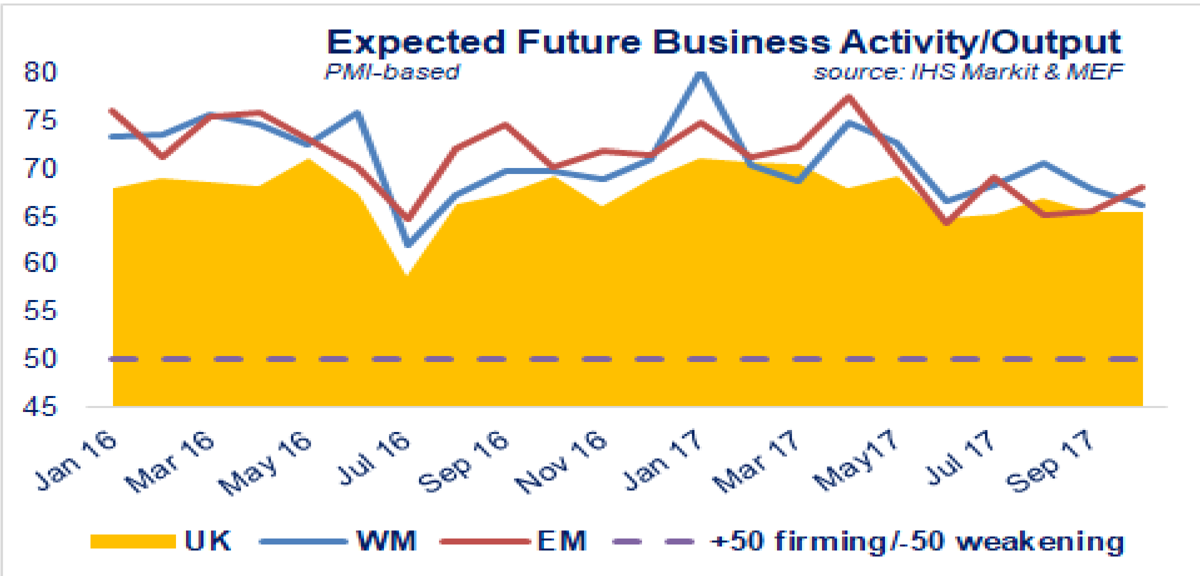
Both the EM and the WM saw increases in new orders in October, coming from both current clients and new business in both areas. Both regions saw a broad-based increase in new orders across both manufacturing and services sectors. As a result, both the EM and the WM saw increases in business outstanding, although softer rises than in previous months. In contrast, the UK overall saw a slight decrease in unfinished work.



Both the EM and the WM saw rising input costs in October, with growth in prices above UK levels. Firms in both regions noted the continued weakness of Sterling as a cause for increasing input costs, with businesses in the EM also noting increased costs for raw materials such as food and commodities. Similarly, the rate of output price rises was also higher in the Midlands than in the UK overall, with both the EM and the WM recording faster rises in output costs in October than in September. This was due to businesses passing on the higher input costs to customers, and price rises were in line with cost rises. In the WM, manufacturers were reporting faster rises than service sector firms.

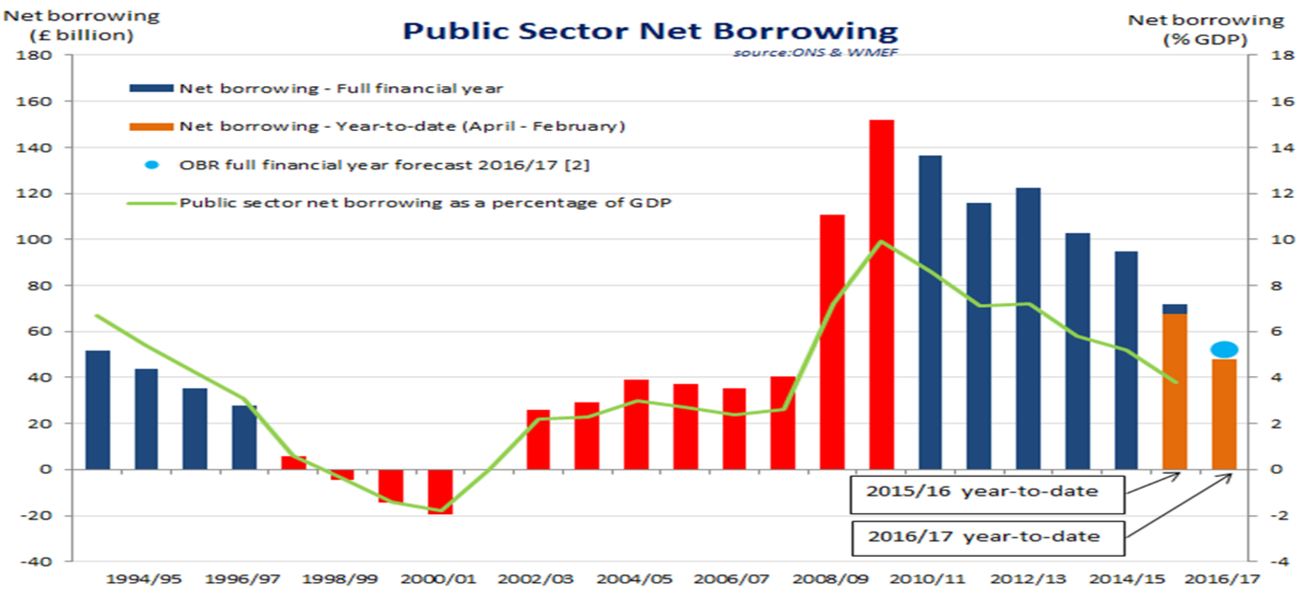


Employment demand increased in both the EM and the WM in October, but at a slower pace than seen previously, although the rate of expansion was still faster than the UK in the WM and broadly in line with the UK in the EM. Businesses in the region attributed the rise in employment to increases in operating requirements and new business.



Both the EM and the WM recorded levels of business confidence above that seen in the UK overall, with confidence in the EM increasing, although softening slightly in the WM. Businesses in the EM attributed investment plans and a positive demand outlook to their optimism, while firms in the WM reported new marketing initiatives and expected customer acquisitions.

UK Budget Prospects



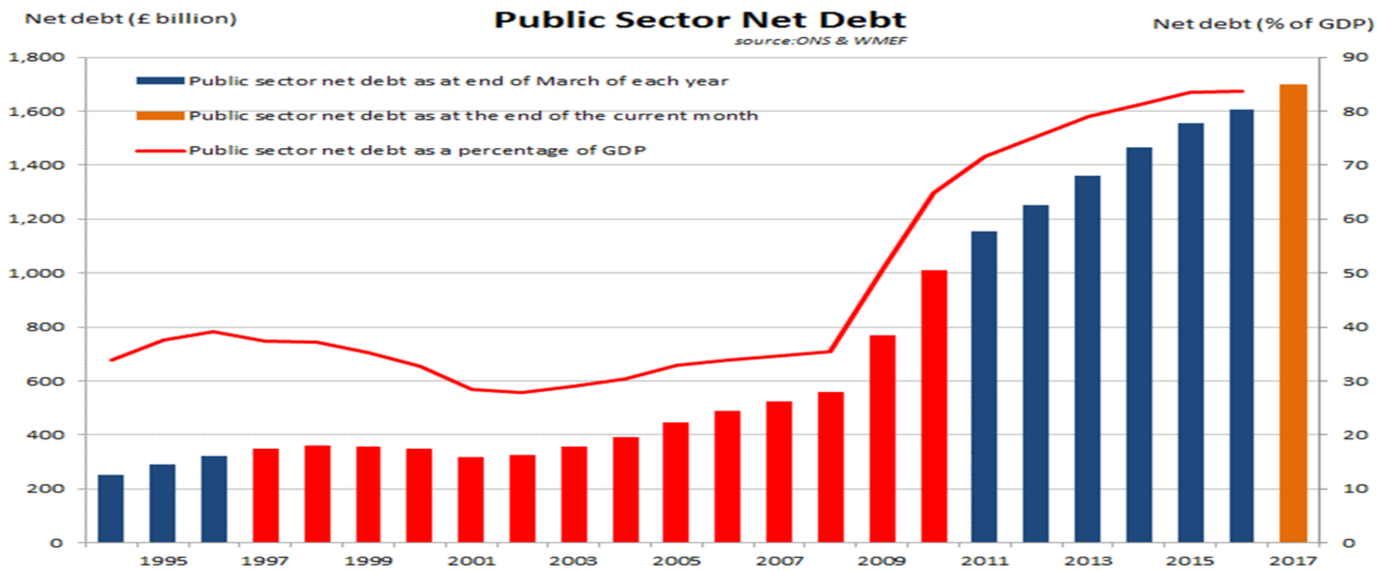
The fact that there has been scant public debate about the direction of the government's budget, to be announced on Wednesday 22nd November, is indicative of the stranglehold the understandable pre-occupation with Brexit is placing on government policy making.

Given the government's longer-term fiscal strategy, and the Chancellor's own cautious approach, there would appear to be little room for adjustment. Public sector debt as a proportion of GDP is expected to exceed 80%, and according to the government's own assessment this provides a significant constraint on growth – although there is considerable debate over the actual impact. More positively, the authorities have been able to bring the annual borrowing requirement to a level equivalent to less than 4% of GDP for the fiscal year 2016/17. The government's target is to bring the budget into balance, rather the previous Maastricht-based target managing the deficit to less than 3% of GDP.

The extended period of austerity has yet to produce a dramatic reduction in the public sector debt, or a significant enhancement of growth prospects. Moreover, real wage growth has been anaemic, despite near record levels of employment, with wages being further undermined by rising inflation. This is now being fuelled by rising commodity prices as the impact of the post-Brexit £ depreciation washes out of the

CPI - £ has been relatively stable trading around US$1.30 since October 2016. Pressures are becoming more intense on the Chancellor to stimulate wage growth, notably to relax public sector pay restraints. Moreover, there are increasing demands to replenish depleted defence capability, tackle chronic housing shortages and boost infrastructure spending to improve the international competitiveness of the economy as it enters a post-Brexit environment. Indeed, the Brexit context itself, with its as yet unquantified financial implication, provides the most significant factor of uncertainty for the Budget.

When the Prime Minister initially entered office she promised a change of approach, and with her Chancellor, committed to a more activist, if not interventionist government strategy, although this has yet to emerge. Moreover, following an unsuccessful snap general election and the increasing debilitating strains within both the Conservative Party and Parliament, there seems to be a division between the Prime Minster and the Chancellor, and as a result it would be a major surprise if the budget unveils a radically new strategy.



Brexit Update

It's now been seven months since the establishment of the Centre for Brexit Studies at BCU, a period which has seen the enactment of the Article 50 withdrawal process from EU membership, a UK Westminster election that defied most pundit predictions of a "Tory landslide" to see the Government lose its majority in the House of Commons and having to do a deal with the DUP to stay in power, and now the current scandal around the alleged conduct of some MPs which has already seen the resignation of one Cabinet member in Sir Michael Fallon and another in Priti Patel, for conducting conversations with the Israeli PM, Benjamin Netanyahu, amongst others, whilst ostensibly on holiday in Israel. The prospect of trade deals outside the EU look difficult, as the comments recently made by the US Commerce Secretary, Wilbur Ross, that the UK will need to drop current food standards and accept importing chlorinated chicken if it wants a “trade deal” with the US serve to illustrate.

The turnaround in the Government’s fortunes have been stark since the outcome of the June 23rd 2016 referendum that saw the resignation of the then Prime Minister, David Cameron, and his replacement by Theresa May, who sought to provide “strong and stable leadership” and stated that “Brexit means Brexit”. In contrast to predictions in 2016 by the Secretary of State for Exiting the EU, David Davis, that a deal with the EU would rapidly be concluded, negotiations remain stuck in phase 1, with agreement yet to be reached on the EU’s “red line” issues of the Northern Ireland border, rights of EU citizens living in the UK, and the size of the “divorce bill” facing the UK.

The Government has been under pressure to release the findings of 58 reports analysing the likely effects of Brexit on different sectors of the UK economy (although the Government has contested this, arguing that the reports don’t exist as separate publications, and so will take weeks to release), with the Speaker, John Bercow, giving the Government until Tuesday November 14th to release these assessments. With only 50 negotiation days remaining at the time of writing, we are still no further in gaining any clarity as to what our future trading relationship with the EU will be, and senior European political figures have indicated that the UK Government needs to make more concessions to move negotiations on, with Michel Barnier, the EU’s chief negotiator, giving the UK Government two weeks to clarify its position on the “divorce bill”. At the same time, it is becoming increasingly apparent that Brussels views that the only way to stop a return to a hard border in Northern Ireland is for it to remain in the Customs Union and Single Market – a stance which David Davis, Secretary of State for Exiting the EU responded to by saying that he would reject any position that “compromised” the economic integrity of the UK.

Yet public opinion has shown little sign of shifting much since the June 23rd referendum last year, with YouGov's polling (average of five most recent polls) suggesting that 45% of people thought we were wrong to leave the EU, as opposed to 43% saying that we were right to leave the EU (with the corresponding figures for the average of the first five polls being 42% and 46% respectively[1]. And the Government itself remains more divided that ever, with the recent publication of a joint letter by Boris Johnston and Michael Gove, calling for any transition period to end in June 2021 – a stance which has drawn responses from other MPs stating that they should be "disciplined" for this. November 13th 2017 marks 500 days until the March 29th 2019 exit date, but with only 50 days of negotiation time in effect left to conclude a deal (which must be done by September 2018), it remains problematic at best to see if a deal can be done (and ratified by all EU member parliaments) by then.

Ends

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Notes to the Editor:

Birmingham City University: Centre for Brexit Studies

The Centre for Brexit Studies (CBS) is an academic facility which supports and encourages the existing work on Brexit within Birmingham City University's schools and faculties. It promotes rigorous engagement with the multifaceted aspects of the "Leave" and "Remain" perspectives in order to enhance understanding of the consequences of withdrawing from the EU. Whilst CBS will have a national focus we will also specifically investigate the impact on Birmingham and the surrounding areas. The work of CBS is primarily undertaken by Birmingham City University staff and students, but we will provide collaborative opportunities with interested businesses, professional organisations and civil society. Our work will be accessible to the general public and we will hold conferences,

[1] https://yougov.co.uk/news/2017/10/27/there-has-been-shift-against-brexit-public-still-t/

workshops and seminars to disseminate knowledge and encourage discussion on Brexit. The Centre website will also reference member's publications on Brexit issues.

The last month has seen the Centre consolidate and expand its activities, with a view to making a continued contribution to debate and thought leadership on the subject, with a research examining the potential for trade with Commonwealth countries, employment law implications and future humanitarian relief (particularly in light of recent natural disasters in the Americas) . Forthcoming work will include further analysis on potential future trade links with Commonwealth countries, particularly focussing on India, Australia and Nigeria. In addition, the Centre plans to enhance its communications capabilities and web presence with a series of regular podcasts by academic experts. The "CBS" roadshow planned for November and December will take us across the country in an effort to identify and understand people's current concerns around the Brexit process and what it means for them. Finally, an early "heads up" for the CBS Annual Conference next March, where we can confirm keynote speakers including Professor Patrick Minford of Cardiff University, and Professor Vernon Bogdanor FBA CBE of Gresham College.

Midlands Economic Forum:

The Midlands Economic Forum is a neutral, independent forum bringing together representatives of the public, private and voluntary sectors to evaluate real trends in the local economy. Midlands Economic Forum is part of the West Midlands Economic Forum Group.